



# ANNUAL REPORT

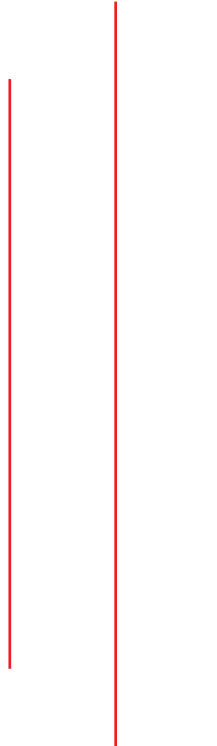
Fiscal Year 2068/69 (2011/12)



**FINANCIAL INFORMATION UNIT (FIU)**  
**NEPAL RASTRA BANK, CENTRAL OFFICE**  
**BALUWATAR, KATHMANDU, NEPAL**

# ***ANNUAL REPORT***

**Fiscal Year 2068/69 (2011/2012)**



**Financial Information Unit (FIU)**

**Nepal Rastra Bank**

Baluwatar, Kathmandu  
Nepal

# Table of Contents

<b>Foreword.....</b>	<b>1</b>
<b>1. FIU Nepal .....</b>	<b>2</b>
1.1 Organization of FIU.....	3
<b>2. Legal and Institutional Framework.....</b>	<b>4</b>
2.1 Legal Framework.....	4
2.2 Institutional Framework.....	5
<b>3. Collection, Analysis and Dissemination of Financial Information.....</b>	<b>8</b>
3.1 Designated Threshold Across Industries.....	8
3.2 Collection of Reports.....	9
3.3 Receipt of TTRs.....	9
3.4 Receipt of STRs.....	10
3.5 Analysis of STRs.....	11
3.6 Dissemination.....	12
<b>4. Building Partnership.....</b>	<b>13</b>
4.1. Domestic Cooperation .....	13
4.2. Coordination for National Risk Assessment.....	13
<b>5. International Cooperation and Information Exchange.....</b>	<b>15</b>
5.1. Memorandum of Understanding with Foreign Counterparts.....	15
5.2. International Information Exchanges.....	15
5.3. Global AML/CFT efforts.....	16
5.4. Participation in Steering Committee of AML/CFT Tropical Trust Fund (TTF).....	16
5.5. Participation in Mutual Evaluation and Typology Workshop.....	17
5.6. FIU-Nepal and Egmont Group.....	17
5.7. Assistance from International Organizations and Foreign Agencies.....	18
<b>6. Capacity Building.....</b>	<b>19</b>
6.1. Organizational capacity Building.....	19
6.2. Capacity Building of Reporting Entities and Law Enforcement Agencies.....	20
6.3. Awareness Programs through Media.....	20
<b>7. Nepal Rastra Bank Strategy on Financial Information Unit.....</b>	<b>21</b>
<b>8. National AML/CFT Strategy and Action Plan 2011-2016.....</b>	<b>21</b>
<b>Strategic Priority: Enhance regulatory and supervisory framework against money laundering.....</b>	<b>23</b>

## Appendix



## Foreword

Money Laundering (ML) and Terrorism Financing (TF) are not only the issues of financial crimes but also the objects of overall crime scenario of society. These crimes have equal impact in national and transnational economy. It is essential to develop the mechanism for controlling and alleviating it both nationally and internationally. These heinous issues of society can be averted not only with the effort of single institution and state but also equally with the coordinated joint efforts of all the financial institutions of the world, international organizations and foreign states. Additionally, there is parallel necessity of convergence of private and public sector to track the perpetrator of such crimes.



FATF and FATF style regional body like Asia Pacific Group on Money Laundering (APG), and other are working jointly in their respective area of jurisdiction covering the territory of the globe. As Nepal is also the member of different AML/CFT Conventions, Nepal is trying to apply FATF Recommendations, Best International Practices concluding MOU with foreign FIUs. So, Nepal has the obligation to accomplish the provisions of such national and international instruments in accordance with Section 9 of Nepal Treaty Act, 1990 supported by Interim Constitution of Nepal.

Nepal has already passed Asset (Money) Laundering Prevention Act, 2008, Asset (Money) Laundering Prevention Rules, 2009, AML/CFT Strategic Plan (2011-2016), AML/CFT Supervision Manual, AML/CFT Supervision Transaction Guidelines for AML/CFT purpose. It has very speedily begun to implement the potential for optimization shown therein. FIU-Nepal has been established for information collection, analysis and dissemination of it to concerned national and international authority in accordance with the AML/CFT law of Nepal.

Moreover, FIU-Nepal has left no spare to organise numbers of capacity building programme by providing training to FIU staffs in collaboration with IMF, World Bank, AUSTRAC, and American Department of Treasury. It has also been providing the service of resource person in training organised by various regulatory and reporting entities.

At last, but not least, FIU-Nepal has been vehemently working in AML/CFT field in coordination with different national and international mechanism. Thus, this report has included the information of activities accomplished by FIU and other associate mechanism with the good faith of establishing Nepal as crime free zone.

**Dharma Raj Sapkota**  
Chief, FIU-Nepal

## 1. FIU Nepal

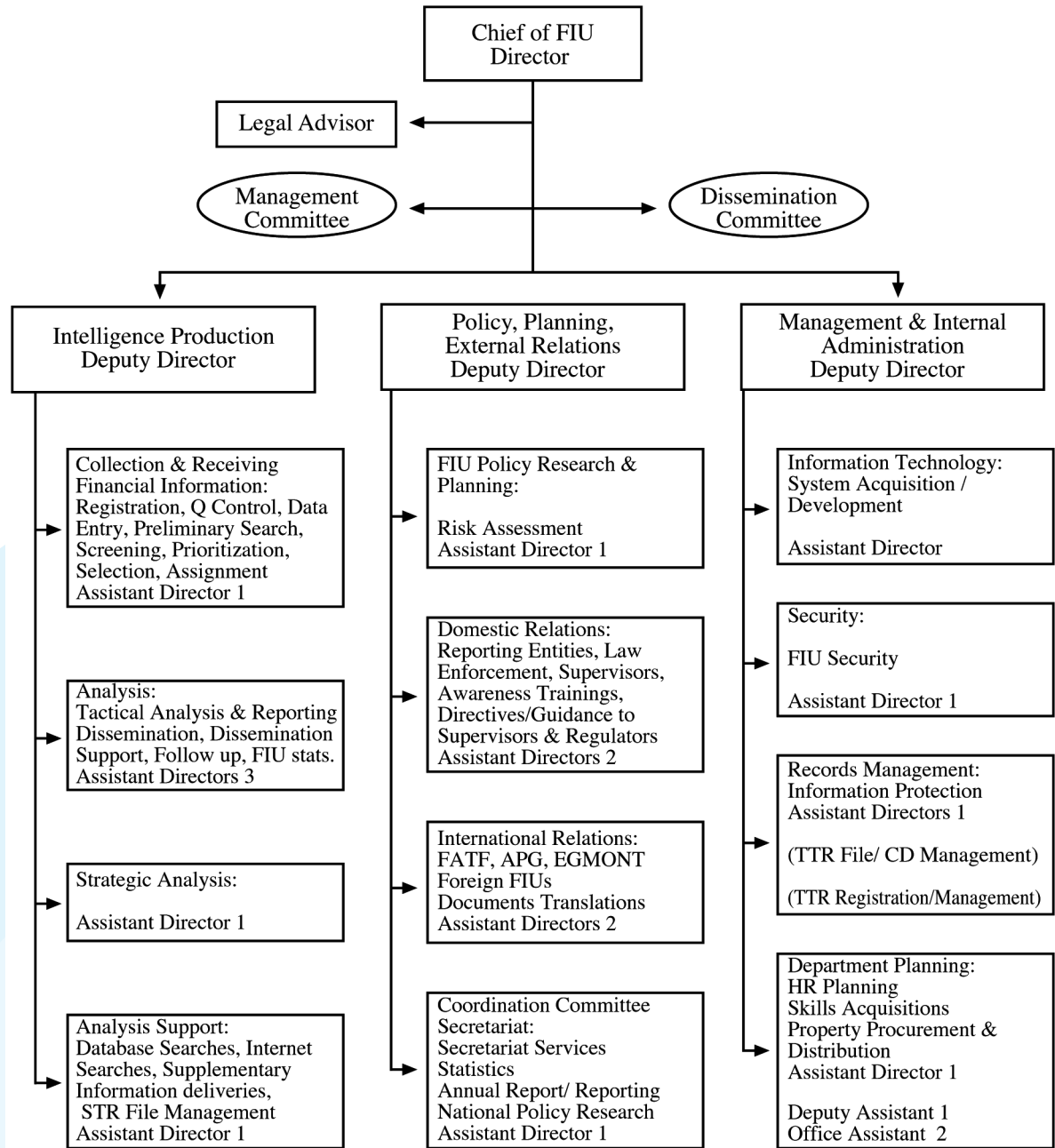
The Financial Information unit-Nepal (FIU-Nepal) is a central, national agency responsible for receiving, requesting, analyzing and disseminating information concerning suspected proceeds of crime, potential money laundering or terrorism financing, as stipulated in Section 9 and 10 of the Asset (Money) Laundering Prevention Act, 2008. The existing AML/CFT legislations have mandated the FIU-Nepal to perform the following functions:

- To receive on a regular basis the reports of prescribed transactions from government entities, bank, financial institution and non-financial institutions and maintain records of those reported transactions;
- To analyze the reported transactions;
- To disseminate the financial intelligence to various law enforcement agencies, including the Department of Money Laundering Investigation (DMLI), Nepal Police, Commission for the Investigation of Abuse of Authority (CIAA), Department of Revenue Investigation (DRI) etc;
- To exchange financial information and intelligence relating to ML/TF with the foreign counterpart FIUs on the basis of reciprocity;
- To inspect transactions and records of bank, financial institution and non financial institution, to obtain any information or clarification about any suspicious transactions records and their copies if necessary;
- To provide trainings to the FIU staffs, staff of reporting entities and the government entities tasked with AML/CFT responsibilities; and
- To carry out other functions as prescribed.

Furthermore, Asset (Money ) Laundering Prevention Act, 2008 has assigned the FIU-Nepal to function as the secretariat of the Coordination Committee, the apex standing policy body headed by the Secretary of Ministry of Finance. The FIU-Nepal is also assigned the responsibility to function as national focal point for AML/CFT matters.

The FIU-Nepal was established on 21 April, 2008. It is established within Nepal Rastra Bank, the central bank of Nepal and is headed by the first class officer (Director) of Nepal Rastra Bank. FIU has a total strength of 22 staff members, including the Director. The staff have various academic backgrounds and work experiences. It is composed of officers with more than decades long experience and fresh officer recruits. They have academic background in commercial, international and criminal law, management, accountancy, taxation and economics. Officers have experience in regulation and examination of banks as well as in foreign exchange policy and management.

# 1.1 Organization of FIU





[FIU-Nepal Team]

## 2. Legal and Institutional Framework

### 2.1. Legal Framework

Nepalese AML/CFT regime emanates from the parliamentary enactment (Act) and other delegated legislations. Currently the following legal instruments exist as to the AML/CFT.

- a. Asset (Money) Laundering Prevention Act, 2008 (Parliamentary Enactment).
- b. Asset (Money) Laundering Prevention Rules, 2009 (framed by the Government of Nepal).
- c. FIU Directives to various reporting entities including Banks and Financial Institutions, Insurance Sector, Securities Business, Government Agencies, Cooperatives, Money Changers and Money Value Transferors, Casinos, Dealers in precious stones and metals, Lawyer and notary public and Professional Accountants .
- d. NRB Directives on AML/CFT to Banks and Financial Institutions, 2012.
- e. NRB Directives to Money Changers and Remitters, 2012.

The first instrument mentioned above is a parliamentary enactment whereas the remaining ones are delegated legislations. The first two instruments are the laws and the remaining ones are Other Enforceable Means (OEMs).



## 2.2. Institutional Framework:

Nepalese AML/CFT regime has given responsibilities to different committees and agencies. The ALPA, 2008 has created Coordination Committee besides providing for the establishment of Financial Information Unit and Department of Money Laundering Investigation. Similarly the Rules, 2009 has provided for Technical Committee.

### **Coordination Committee,**

This apex policy making committee, formed as per the ALPA and mandated to ensure coordination among the relevant agencies tasked with AML/CFT responsibilities and to provide necessary suggestions to the Government of Nepal with regard to the prevention of ML/TF offence, consists of the following officials:

1. Secretary, Ministry of Finance – Coordinator.
2. Secretary, Ministry of Law and Justice – Member
3. Secretary, Ministry of Home Affairs- Member
4. Secretary, Ministry of Foreign Affairs – Member
5. Secretary, Office of Prime Minister and Council of Ministers- Member
6. Deputy Attorney General ,Office of Attorney General –Member
7. Deputy Governor, Nepal Rastra Bank – Member
8. Inspector General of Nepal Police- Member
9. Chief, Financial Information Unit – Secretary



**Co-ordination committee**



The Act provides for the following powers and duties to the Coordination Committee:

- To prepare policy for prevention of offence and submit the policy to the Government of Nepal;
- To implement or cause to implement the decision of the Government of Nepal taken for prevention of offence;
- To recommend to the Government of Nepal, as per necessity, to implement the standards and policies developed for prevention of offence by international organization of which Nepal is a member;
- To instruct concerned agencies for prevention of offence and to monitor whether or not the instructions are complied with;
- To implement or cause to implement the annual report prepared by the Financial Information Unit; and
- To perform or cause to perform other tasks in relation to prevention of offence, as prescribed by the Government of Nepal.

The Committee recommended amendment to the Asset (Money) Laundering Prevention Act, 2008 and the amendment was enacted in 2011. Last September, it recommended to the Government of Nepal to adopt the National AML/CFT Strategy and Action Plan. Consequently, the Government adopted it on September 27, 2011 and it is being implemented now. Similarly, the committee recommended the mutual legal assistance and extradition bill. The Government of Nepal passed and sent to the president for the approval. President approved the two bills as ordinance on 18 June 2012. The committee has been overseeing the AML/CFT activities performed by the relevant agencies in addition to ensuring effective coordination among those agencies.

## **Technical Committee**

This committee is formed as per Asset (Money) Laundering Prevention Rules, 2009 for assisting the Financial Information Unit to execute the objectives of the Act. It consists of:

- a) Chief, the Financial Information Unit– Coordinator
- b) Representative, Department of Money Laundering Investigation– Member
- c) Representative, Banks and Financial Institutions Regulation Department, Nepal Rastra Bank– member
- d) Representative, Foreign Exchange Management Department, Nepal Rastra Bank– member
- e) Representative, Nepal Police–Member
- f) Representative, Securities Board of Nepal –Member
- g) Representative, Insurance Board–Member
- h) Deputy Director, Financial Information Unit– Member Secretary

The Technical Committee assists the Financial Information Unit in the following functions:

- Formulation of measures or strategy necessary for the control of the offence;
- Implementation of the measures or strategy;
- Promotion of awareness for the control of the offence; and
- Performing other functions as prescribed by the Coordination Committee.

## **Department of Money Laundering Investigation (DMLI)**

The Government of Nepal established Department of Money Laundering Investigation on 15 July, 2011 as per Section 11 of ALPA, 2008. The first class officer (Joint Secretary) of the Government of Nepal heads the department. The department functions as an investigatory and prosecutorial authority as to ML/TF. It has all powers that an investigation authority exercises under existing law of Nepal. This includes power to search and seize, freeze assets and put restraints on the transaction of the asset subject to investigation.

The department can request any government agency or public agency to second its relevant officer to the department as an investigation officer. Besides, it can hire other required experts as and when such expertise is required for effective investigation of the offence.

### 3. Collection, Analysis and Dissemination of Financial Information

Receiving financial transaction reports from the reporting entities, analysis of those reports and dissemination to the LEAs the financial intelligence are the core functions of the FIU-Nepal as per Section 9 and 10 of the ALPA, 2008. The FIU receives reports from a range of reporting entities that have reporting obligations as per existing AML/CFT laws of Nepal.

The reporting entities consist of the all banking and financial institutions, money changers and remitters, saving/credit cooperatives, insurance companies, securities business, the government agencies, such as the Office of the Company Registrar, Land Revenue Offices, Office of the Company Registrar, Customs Offices and Office of the Transport Management; and the DNFBPs like dealers in precious stones and metals, casinos, accountants and notary public.

The reporting entities report TTRs and STRs to the FIU. The TTRs are the currency transaction reports exceeding the designated threshold. Industry specific threshold has been designated by the the Board of Nepal Rastra Bank, the central bank of Nepal.

#### 3.1. Designated Threshold Across Industries

S.N.	Industry	Threshold
01	Banks/ Financial Institutions and cooperatives	One million rupees in cash in a day by a customer, either in a single transaction or in multiple transactions.
02	Insurance Company	One hundred thousand rupees annual premium for life insurance and three hundred thousand rupees annual premium for non-life insurance policies.
03	Money Remitters	One million rupees in a day, either in a single or multiple transactions.
04	Land Revenue Office	Purchase/sale of land worth three million or more and sale/purchase of house worth five million rupees or more.
05	Money Changers	Five hundred thousand rupees or more in a day, either in a single or multiple transactions.
06	Casinos	Gaming of three hundred thousand rupees or more in a day, either in a single gaming or in multiple gaming. Exchanging Three Hundred Thousand rupees or more amount in a day by any person through the casino chip to casino cheque, either in a transaction or multiple transactions.
07	Dealers in precious stones and metals.	Sale or purchase of precious stones or metals worth one million rupees or more in a day.



### 3.2. Collection of Reports

The FIU receives the TTRs and STRs from a range of reporting entities. As a legal requirement, the reporting entities should report the TTRs and STRs in specified formats. For banks and financial institutions, the Central Bank has specified the reporting format in its AML/CFT directives. For cooperatives and non-bank reporting entities the FIU-Nepal has specified the format of reporting of both TTRs and STRs.

### 3.3. Receipt of TTRs

S.N.	Reporting Institutions	Number of Reports received in Year 2008/9	Number of Reports received in Year 2009/10	Number of Reports received in Year 2010/11	Number of Reports received in Year 2011/12	Remark
1.	Banks and Financial Institutions	8,42,358	28,07,860	30,88,646	33,78,588	
2.	Government Agencies	N/A	3,741	10,517	1075	The decrease in the TTRs from Government agencies, especially from the Land Revenue Offices across the country might have been the result of the decrease in the real estate transactions after central bank's strict regulation on lending to the real estate sector.
3.	Insurance companies	N/A	N/A	N/A	13884	
4	Securities companies	N/A	N/A	N/A	14619	

As Nepalese AML/CFT endeavors date back to 2008 only, the entire regime is at a growing stage. The reporting of TTRs and STRs to the FIU began once the ALPA came into force. However, awareness was a must for the entire AML/CFT system. Gradually, the reporting has increased with the increasing level of awareness on the issue. The increasing number of reports is indicative of the increase in awareness among the reporting entities.

Threshold Transactions are required to be reported within 15 days from the event and Suspicious Transactions immediately after the reporting entity has a ground to suspect the transaction, including attempted suspicion.

Reporting of Suspicious Transaction is one of the basic AML/CFT obligations of the reporting entities in Nepal. Section 2 (1) of ALPA defines a suspicious transaction as “the transaction of such nature that is impossible in general economic, commercial and business practice and the term also means similar other transactions the FIU declares from time to time as suspicious transaction”. Sticking to this provision, the FIU has provided the reporting entities with grounds for suspicion.

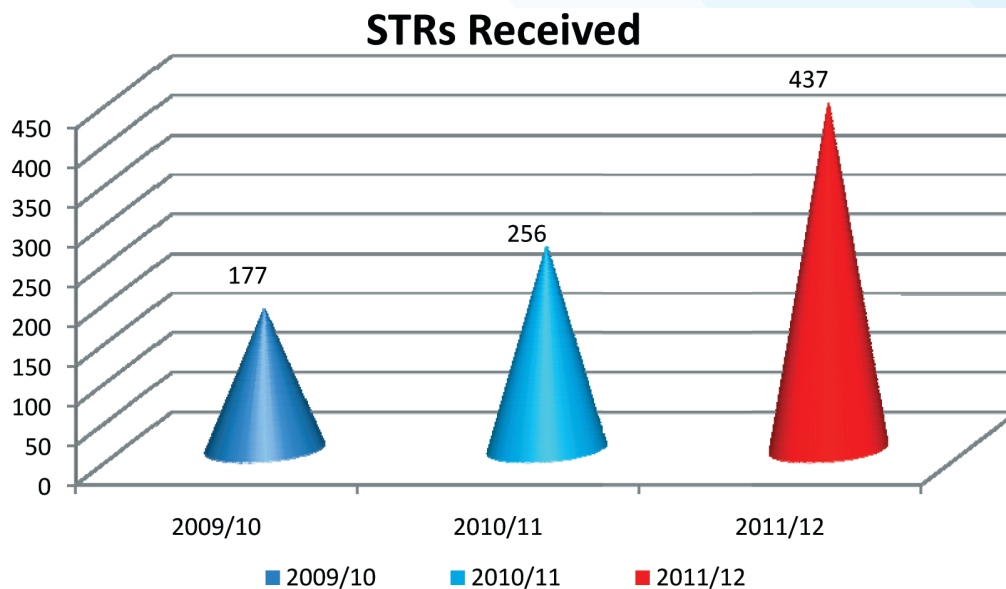
Unlike TTRs, what qualifies to be an STR is hard to determine. However, FIU Directives have given certain grounds for suspicion for the reporting entities to use them as minimum standard. Again, it is the reporting entity to determine whether a particular transaction of its customer is a suspicious transaction.

### 3.4. Receipt of STRs

(A glimpse of receipt, analysis and dissemination)

Category	2009/10	2010/11	2011/12
STRs Received	177	256	437
STRs Brought forward from previous year	0	4	0
STRs analyzed	173	260	53
STRs postponed	8	45	7
Dissemination to LEAs	165	215	46
On analysis C/F to next year	4	0	384

Suspicious Transaction Reports received by FIU-Nepal

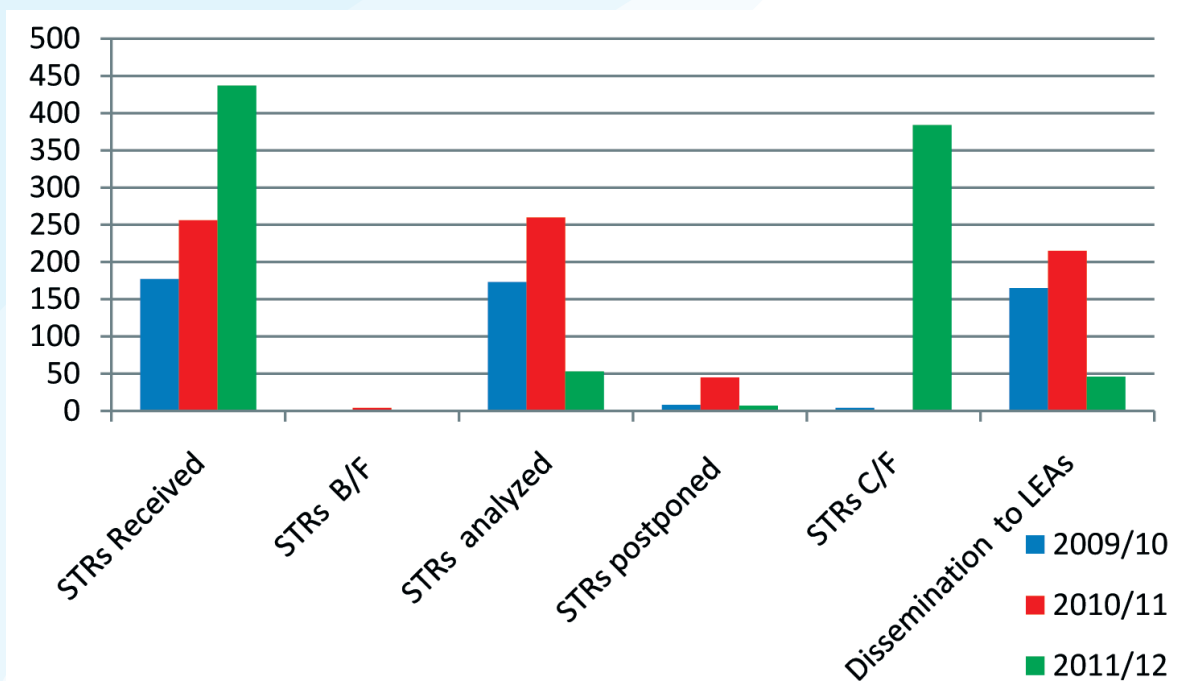


The table above shows that the number of suspicious Transaction Reports (STRs) submitted by reporting entities has increased by 71 % in 2011/12 in comparison to that of 2010/11. This year alone, the FIU has received 437 STRs. The increase in the number of STRs indicates how seriously the reporting entities have taken the issue. Besides, this has resulted from the ongoing trainings and awareness programs organized by the reporting entities themselves and by the FIU.

### 3.5 Analysis of STRs

The FIU conducts operational analysis by using available obtainable information to identify specific targets (e.g. person, asset, criminal networks and associations) and to follow the trail of particular financial activities or transactions. The operational analysis also determines the links between those targets and possible proceeds of crime and the links between money laundering, predicate offences or terrorist financing.

Of the 437 STRs received in the current year 53 have been analyzed and 46 disseminated to domestic law enforcement agencies, mainly to the DMLI. The remaining 7 STRs have been postponed after analysis. The bar below presents a picture of the receipts, analysis and disseminations made over last three years. This also presents statistics about the STRs brought forward from previous year and carried forward for next year.





## STRs Trend Analysis Report

In the last three fiscal years (2009/10-2011/12), the FIU-Nepal has received total of 870 STRs. The strategic analysis of the reported STRs reveals that:

1. The number of STRs has increased at a rate of 147% during 2009/10 to 2011/12.
2. The increasing trend of receiving STRs in the percentage of STRs during the analysis period indicates awareness among the reporting entities.
3. The STRs are received mainly from the banking sector.

### 3.6 Dissemination

The STRs are processed and analyzed for the purpose of dissemination to the law enforcement agencies for criminal investigation. The FIU adds value to the STRs through analysis before dissemination.

The disseminations have been made both domestically and internationally. This year, 46 disseminations have been made to law enforcement agencies. Financial intelligence have been disseminated to the foreign counterparts on four different occasions this year.

The number of disseminations appears to have decreased in comparison to that of previous years. However, in addition to the regular function of analysis of the STRs, the FIU Nepal has played a significant role in various other functions surrounding the AML/CFT issues in Nepal.

Second Mutual Evaluation Report of Nepal was adopted in the APG's annual meeting in 2011. The APG meeting placed Nepal under enhanced follow up process which required Nepal to prepare Strategic Implementation Plan (SIP) by the end of January 2012 to address the deficiencies identified in the ME report. Further, a comprehensive progress report was required to be submitted by 31 May 2011. The FIU-Nepal had a leading and coordinating role to prepare those reports on time.

Realizing the urgent need to combat ML/TF and to put in place proper mechanisms and actions to address the deficiencies to better comply with international AML/CFT standards, the government of Nepal started to prepare national AML/CFT strategy with the technical assistance of the IMF. The FIU was involved in the preparation of the national strategy. Finally the Government of Nepal adopted "National AML/CFT Strategy and Action Plan 2011-2016" on 27 September 2011. The strategy is currently being implemented. The FIU has representation in all seven committees and sub committees, instituted as per the strategy, with specific mandates and responsibilities of ensuring effective implementation of the strategic objectives. These committees and sub-committees include Implementation Committee, Legal Sub-Committee, Supervision Sub-Committee, Investigation Sub-Committee, International Cooperation Sub-Committee, Technical Sub-Committee and National Risk Assessment Sub-Committee.

As Nepal is under ICRG process, Nepal has submitted an action plan to the ICRG. With participation of FIU Nepal as a member of Nepalese delegates, Nepal has been presenting the progresses in the face to face meeting of the ICRG that takes place prior to every FATF plenary. In the current fiscal year 2011/12, there were less officers in the FIU's analysis division because the officers got involved in above mentioned necessary tasks. Due to less number of officers in the analysis division, the STRs dissemination became less than that of the previous fiscal year 2010/11.

## **4. Building Partnership**

As per the legal provision of Nepal, the FIU-Nepal is a member institution of the AML/CFT regime. Unless having in place a systematic and coordinated approach to fight ML/TF, expected results are less likely to be achieved. Therefore, the FIU has developed a close working relation with all relevant AML/CFT agencies in course of the performance of its legal mandate.

### **4.1. Domestic Cooperation:**

At the domestic level, the FIU has established a close working relation with various stakeholder agencies of the Government of Nepal in addition to the reporting entities. The FIU-head functions as a secretary of the Coordination Committee and there is representation of the FIU in various committees instituted as per “National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011-2016”.

The strategy has an objective of ensuring effective coordination of efforts to combat money laundering and the financing of terrorism. For achieving this strategic objective, the FIU is given the responsibilities of assisting the coordination committee. In every national endeavor on AML/CFT, the FIU is playing its role, mainly as a proactive member of the committees formed pursuant to the strategy.

More importantly, in the AML/CFT regime, the FIU’s role to bridge the financial sector with the law enforcement agencies demands domestic coordination. Taking this need into account, the FIU has created a separate desk for domestic coordination. This desk manages domestic relationships with suppliers of transaction information to the FIU, to ensure maximum, high quality transaction reporting, thus facilitating the FIU function of intelligence production. This desk also manages relation with law enforcement agencies that are recipients of the FIU’s intelligence products, to encourage and facilitate investigative follow-through on the FIU’s disseminations.

### **4.2. Coordination for National Risk Assessment:**

As per the National AML/CFT Strategy and Action Plan 2011-2016, a Risk Assessment Sub-Committee has been formed under the chairmanship of the FIU head. The committee is coordinating the national risk assessment. FIU functions as a secretariat of the committee. The committee has organized one day national workshop on National Risk Assessment in Kathmandu on July 2, 2012. There was participation of more than

30 relevant agencies, including Ministry of Finance, Ministry of Law, Ministry of Home Affairs, Nepal Police, DMLI, Nepal Rastra Bank, Insurance Board, Securities Board, Social Welfare Council, etc. The workshop was focused on developing risk assessment methodology and tools. Later, the risk assessment sub-committee finalized the methodology. Now, the committee is gathering required information and statistics from relevant agencies.



[Paper being presented during National Risk Assessment Workshop]



## 5. International Cooperation and Information Exchange:

Having obtained the membership of APG in 2002, Nepal has expressed commitment to fully comply with international AML/CFT standards. It has been making efforts towards achieving compliance with the international standards, including extending international cooperation against money laundering and terrorist financing.

The Asset (Money) Laundering Prevention Act, 2008 has mandated the FIU-Nepal to exchange information with foreign counterparts. It has concluded Memorandum of Understanding for the exchange of financial intelligence with 8 counterpart FIUs.

### 5.1. Memorandum of Understanding with Foreign Counterparts

S.No.	FIU and country	Date of MoU
1	Financial Intelligence Unit, Bangladesh	21.10.2008
2	The Financial Intelligence Unit, Central Bank of Sri Lanka	09.07.2009
3	The Anti Money Laundering Office (AMLO) of the Kingdom of Thailand	12.07.2010
4	Financial Intelligence Unit, Bank of Negara, Malaysia	13.07.2010
5	The Financial Intelligence Unit, Bank of Mongolia	13.07.2010
6	The Anti Money Laundering Division Investigation Bureau, Ministry of Justice, Republic of China (Taiwan)	28.03.2011
7	Korean Financial Intelligence Unit, Financial Services Commission, Republic of Korea	11.05.2011
8	The Financial Intelligence Unit- India	17.11.2011

### 5.2. International Information Exchanges

FIU-Nepal is regularly exchanging financial intelligence and information with foreign counterpart FIUs on suspected money laundering and terrorist financing. Over three years since operation of the FIU-Nepal, financial intelligence has been provided to foreign counterparts on 8 different occasions. This year alone, information has been exchanged in 4 different occasions.

Fiscal Year	Foreign Counterpart	Number of Information Exchanged
2009/10	USA	1
2010/11	India	3
2011/12	India	4

### 5.3. Global AML/CFT efforts

To enhance international cooperation during the last fiscal year FIU-Nepal participated in the following international activities.

Date	Events	Organized by	Place
19-23 Sep, 2012	Face to Face meeting	Asia/Pacific Regional Review Group (RRG )	Malaysia
21-25 Oct, 2011	FATF Plenary and Working Group Meeting at OECD headquarter.	FATF	Paris, France
14-21 Jan. 2012	Asia/Pacific RRG Face to Face meeting with Nepalese Authorities on AML/CFT.	RRG	Sydney, Australia
28 Jan – 6 Feb 2012	Egmont Working Group and Egmont Committee Meeting	Egmont Group of FIUs	Manila, Philippines
7-9 April 2012	Face to Face meeting	RRG	New Delhi, India
30 April - 2 May, 2012	Annual Meeting of the Steering Committee of AML/CFT Tropical Trust Fund (TTF)	IMF	Doha, Qatar
9-13 July 2012	20 <sup>th</sup> Egmont Plenary Meeting	Egmont Group of FIUs and Russian FIU	Saint Petersburg, Russia
13-22 July, 2012	15 <sup>th</sup> APG Annual Meeting.	APG	Brisbane Australia

### 5.4. Participation in Steering Committee of AML/CFT Tropical Trust Fund (TTF)

Dr. Yubaraj Khatiwada, Governor of Nepal Rastra Bank participated in the annual meeting of Steering Committee of AML/CFT Tropical Trust Fund held at Doha, Qatar in May 2012. The governor had an interaction with the high level IMF and Tropical Trust Fund officials about combating money laundering and terrorist financing. The Tropical Trust Fund represents 12 countries. He presented a paper on “Nepal’s AML/CFT Strategy, Its Implantation and IMF’s Technical Assistance to Nepal”. He expressed his opinion as to how money laundering and terrorist financing could be checked. Interacting with the officials he stated that Nepal would always be together with international community and international organizations. He appreciated IMF’s assistance to Nepal and stated that technical assistance for enhancing capacity of the regulatory institutions and that for legal and institutional reform would be supportive to Nepal.

### **5.5. Participation in Mutual Evaluation and Typology Workshop:**

On request of APG, FIU-Nepal sent an official to participate in Mutual Evaluation of Niue as a member of the assessment team to assess legal aspects of AML/CFT regime of Niue. Nepal also presented a paper on Trade Based Money Laundering at the typology workshop jointly organized by the FATF and APG at Busan, South Korea in December 2011.

### **5.6. FIU-Nepal and Egmont Group**

FIU-Nepal applied for the membership of Egmont Group of FIUs on January 2010. Anti Money Laundering Office (AMLO) of Thailand and Anti Money Laundering Division Investigation Bureau of Chinese Taipei sponsored FIU-Nepal for Egmont membership. The FIU-Nepal was invited to attend Egmont Working Group and Egmont Committee meeting in Philippines in January 2012. The FIU-Nepal attended as a candidate FIU the 20<sup>th</sup> Egmont Plenary Meeting held in Saint Petersburg, Russia in July 2012. The FIU-Nepal is committed to work together with the group of FIUs around the world.



**[Nepal Rastra Bank Governor with members of Egmont Group's Mission in Kathmandu]**



### **5.7. Assistance from International Organizations and Foreign Agencies:**

Formal AML/CFT efforts in Nepal were started only after 2008 with the enactment of the ALPA. In the early stage the entire AML/CFT regime was in need of assistance from the relevant international organizations and foreign agencies.

Nepal has received technical assistance as to AML/CFT from international organizations like the International Monetary Fund, World Bank, Asia Pacific Group on Money Laundering as well as from foreign agencies like AUSTRAC, Australia, AMLO of Thailand, Anti Money Laundering Division Investigation Bureau of Chinese Taipei, FIU Malaysia and FIU Korea.

IMF assisted Nepal to prepare National AML/CFT Strategy and Action Plan. Now it is providing technical assistance as to enhancing capacity of the FIU, enhancing AML/CFT supervisory capacity and legal reform framework. The FIU-Nepal has directly benefitted from the expertise available with the IMF as to capacity building of FIU. Currently FIU Procedural Manual is being prepared with the technical assistance of the IMF. At the same time, an amendment to ALPA and AML/CFT Supervision Manual for Bank and Financial Institution Supervisors are being prepared with the assistance from the IMF.



[IMF Supervisory Mission meeting the heads of Supervisory Departments of NRB]

## 6. Capacity Building

Capacity of the agencies tasked with AML/CFT responsibilities is key to achieving objectives of AML/CFT laws. FIU Nepal has been engaged with capacity building activities by conducting various seminars and interaction programs for enhancing the capacity and skills of the FIU officials as well as the officials of other relevant agencies and reporting entities.

### 6.1. Organizational capacity Building

FIU-Nepal believes in strong organizational capacity to enhance its ability to identify and meet new challenges from money launderers and terrorist financiers in current dynamic world. In such situation, continuing education as well as equipping the staff member with required skills for effective performance of the assigned tasks has been a priority of FIU-Nepal. Law has given responsibility to the FIU to function as a focal point for AML/CFT matters. This further requires capacity building efforts within the FIU to serve as national resource centre as to AML/CFT.

#### Capacity building workshops/seminars attended by FIU officials:

Date	Workshop/seminar/Training	Number of officials	Organized by	Place
21-29 Aug 2011	Workshop on AML/CFT technical assistance.	3	Korean FIU	Seoul, Korea
23 Sep-3 Oct 2011	Workshop of strategic Implementation (SIP) Planning.	4	APG	Sydney, Australia.
13- 19 Oct 2011	Sub regional workshop on Control of Physical Cross Border Movement of Cash and Bearer Negotiable Instruments .	1	CTED, UN	Kuala Lumpur
2-12 Dec. 2011	Joint FATF/APG on Typology Workshop	1	APG/FATF and Korean FIU	Busan, Korea
18-21 March 2012	Forth Sub-Group Meeting On Combating Financing of Terrorism.	2	APG	Bangkok, Thailand
27-27 April 2012	Workshop on Revised FATF Standard	1	APG,	Malaysia
2-10 May 2012	Workshop on Revised Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) Standard.	1	IMF	Pune, India
24-28 June 2012	Seminar on Fight Against Money Laundering and Terrorist Financing in South Asia.	1	US Embassy and Bangladesh Bank	Dhaka, Bangladesh

## **6.2. Capacity Building of Reporting Entities and Law Enforcement Agencies:**

The FIU-Nepal has always been available to share knowledge to the reporting entities. It has provided speakers and resource persons to AML/CFT related trainings and workshops organized by the reporting entities, irrespective of whether they are banking reporting entities or non-bank reporting entities. The FIU officials have been resource person to AML/CFT trainings organized by National Judicial Academy for judges and government attorney officials, Revenue Administration Training Centre for tax officers and other private sector officials, Nepal Police, especially Central Investigation Bureau, Nepal Police Academy, and Crime Investigation School in addition to those organized by Nepal Banker's Association, Individual Banks and Insurance Companies. FIU has provided resource persons to Banker's Training Centre of the Central Bank of Nepal. The participants were the bank supervisors and regulators. FIU and DMLI also jointly organized awareness raising interaction program for various business group of private sector and concerned government entities.

Apart from training resources, the FIU-Nepal has also assisted the reporting entities in designing their internal AML/CFT procedure by providing comments and inputs to their draft internal procedures.

## **6.3. Awareness Programs through Media**

Realizing the facts that mass awareness on AML/CFT contributes to the prevention of crime as well as for promoting an AML/CFT culture; efforts have been made for mass awareness. An announcement was broadcast through Radio Nepal and the same announcement was telecast through Nepal Television before News Bulletin at 7 a.m. and 7 p.m. These are the media which are listened to and watched all over Nepal. The content of the announcement was intended to inform general public of the possible prosecution for money laundering and terrorism financing if anyone was found to be knowingly involved in concealing the proceed of crimes or any sort of transactions of illegal proceeds. The announcement informed the people of what activities would constitute money laundering and terrorist financing as well. The announcement was broadcast and telecast for a month.

## **7. Nepal Rastra Bank Strategy on Financial Information Unit**

Financial Information Unit is established within Nepal Rastra Bank, the Central Bank of Nepal as per Section 9 of ALPA. The Bank has prepared a five year strategy 2011-2016 along with the details of activities that would be carried out during the period. The strategy has set objectives of strengthening Financial Information Unit and its mechanism for cooperation with other agencies in addition to complying with international AML/CFT standards. It in particular has an objective of strengthening FIU by enhancing analytical skill of FIU Staff. To achieve these objectives, the strategy has set action plans as mentioned in Appendix A. These actions pertain to installation of IT system, capacity building of the FIU staff, achieving domestic and international cooperation, conducting national AML/CFT risk assessment, etc.

## **8. National AML/CFT Strategy and Action Plan 2011-2016**

With the legal instruments in place, Nepal has a national AML/CFT regime since 2008. However, international reviews of the national AML/CFT regime through Mutual Evaluation of Nepal conducted by the APG in 2010 and the review by the FATF's International Cooperation Review Group (ICRG) have identified some strategic deficiencies in the Nepalese AML/CFT system. There was a need to address those deficiencies and to strengthen national capacity to combat these crimes. Therefore, this required a systematic national strategy. The International Monetary Fund provided Nepal with technical assistance to prepare National AML/CFT Strategy and Action Plan, 2011-2016 which has been adopted by the Government of Nepal. The strategy is currently being implemented. It has an objective of Enhancing the capacity and effectiveness of Financial Information Unit. The Strategy has a separate action plan as to the Financial Information Unit as mentioned in Appendix B. The strategy further mentions the following activities.

- The current mandate and scope of work of the Financial Information Unit will be reviewed and strengthened in line with the international standards.
- A mechanism will be set up for effective collection, analysis, and dissemination of information related to money laundering and the financing of terrorism.
- A strong mechanism will be set up for the timely production of high quality intelligence and other information on money laundering and the financing of terrorism by facilitating the prompt analysis and dissemination of reports.
- The Financial Information Unit will coordinate with supervisory bodies to issue enhanced directives to reporting institutions and related agencies in line with international standards, and to implement and regularly review those directives.



- In order to enhance the effectiveness of reporting entities in implementing measures regarding money laundering and the financing of terrorism, guidance, training and feedback will be given to reporting entities in coordination with other relevant agencies.
- An information technology system will be acquired to enable the electronic receipt of information, analysis, and access to electronic databases and other resources, to enable the prompt and effective performance of the Financial Information Unit.
- The awareness of reporting entities and the public as to the need and importance of minimizing money laundering and the financing of terrorism, and the risks related therewith, will be enhanced.
- The professional expertise and capacity of the Financial Information Unit and its staff will be enhanced.

## Strategic Priority: Enhance regulatory and supervisory framework against money laundering

Nepal has joined the global efforts against money laundering and related crimes by making commitment in implementing international standards of AML/CFT. Accordingly, Financial Intelligence Unit has been established in the NRB. It is entrusted with tasks of receiving, processing, analyzing and disseminating information relating to suspicious financial transactions to enforcement agencies and foreign FIUs. NRB will strengthen FIU by establishing IT network, enhancing analytical skill of FIU's staff and building mechanisms for extending domestic and international cooperation against money laundering. AML/CFT legal and compliance framework will be prepared and implemented in accordance with the national strategy.

### Strengthen Financial Intelligence Unit and its mechanism for cooperation with other agencies

#### Appendix A: Action Plan contained in NRB Strategy 2011-2016

Action	Key performance indicator	Start date	End date	Responsible department
1. Establish IT network for online collection, processing and analysis of data	IT network established	Ongoing	Dec 2012	FIU (L), ITD, GSD
2. Strengthen the analytical capabilities of FIU on STR (Suspicious Transactions Reporting)	Trainings on STR conducted, all staff of the unit trained in the plan period	Ongoing	Jul 2016	FIU
3. Develop a mechanism for getting prompt cooperation from law enforcement agencies, regulators and other related agencies	Coordination and cooperation mechanism developed	Ongoing	Dec 2012	FIU
4. Develop international cooperation mechanism on anti-money laundering	Membership of EGMONT group acquired by FIU, MOUs with fifteen FIUs concluded during the plan period	Ongoing Ongoing	Jul 2013 Jul 2016	FIU
5. FIU to work as Secretariat to the NCC	Reports of the decisions of the NCC prepared, Technical assistance provided	Ongoing	Jul 2015	FIU

## Appendix B: Action Plan contained in NRB Strategy 2011-2016

Action	Key performance indicator	Start date	End date	Responsible department
1. Conduct study on AML/CFT risk assessment	Areas of higher risk identified and addressed	Ongoing	Jul 2012	FIU
2. Review AML/CFT legal Framework	AML/CFT related legal framework reviewed and changed	Ongoing	Jul 2015	FIU
3. Develop AML/CFT compliance framework	Integrated AML/CFT Supervision Manual Prepared	Ongoing	Jul 2016	FIU (L), BFIRD, BSD, DBSD, FCSD, MFPSD
4. Develop Strategic Implementation Plan to comply with the recommendations of APG Mutual Evaluation Report	Strategic Implementation Plan prepared and implemented	Ongoing	Jul 2016	FIU
5. Implement AML/CFT National Strategy	National Strategy implemented	Ongoing	Jul 2016	FIU

**Appendix C: FIU related Action Plan contained in National AML/CFT Strategy and Action Plan 2011-2016**

**OBJECTIVE 4: Enhance the capacity and effectiveness of the Financial Information Unit.**

No.	Activity	Timeline	Primary Agency	Supporting Agency
<b>4.1 Enhance the effectiveness of the internal functioning of the Financial Information Unit.</b>				
4.1.1	Review the existing legal provisions to identify deficiencies in its mandate, and submit them to the Legal Subcommittee for reform.	Mid-Jan. to mid-Feb.2012	Financial Information Unit	Nepal Rastra Bank
4.1.2	Make arrangements for allocation of necessary staff and resources, appropriate organizational structure, operational independence and governance, effective operational procedures; and, secure the new premises.	Mid-May to mid-June 2012	Nepal Rastra Bank	Coordination Committee and Government of Nepal
4.1.3	Prepare procedures for effective accomplishment of the functions of the Financial Information Unit.	Mid-Aug. to mid-Sept.2012	Financial Information Unit	Nepal Rastra Bank
<b>4.2 Enhance the operational capability of the Financial Information Unit.</b>				
4.2.1	Identify the types of information to collect and develop mechanisms by which reporting entities will submit such information to the Financial Information Unit.	Mid-June to mid-July 2012	Financial Information Unit	Nepal Rastra Bank
4.2.2	Develop a plan related to information technology needs, identify the appropriate technology, and arrange the necessary resources for that acquisition.	Mid-Nov. to mid-Dec.2012	Financial Information Unit	Nepal Rastra Bank
4.2.3	Make arrangements for electronic transmissions of reports from reporting entities to the Financial Information Unit.	Mid-Nov. to mid-Dec.2013	Financial Information Unit	Nepal Rastra Bank
4.2.4	Annually publish information about trends and typologies of money laundering and terrorism financing.	Ongoing from mid-May 2013	Financial Information Unit	Coordination Committee, Investigation and Implementation Subcommittee



### 4.3 Adopt measures for prevention of money laundering and terrorism financing.

4.3.1	Issue updated Directives and guidelines to the reporting entities.	In accordance with Supervision Schedule	Financial Information Unit	Nepal Rastra Bank.
4.3.2	Make arrangements for relevant agencies to provide regular feedback to the Financial Information Unit and for the Financial Information Unit to provide feedback and guidance to agencies and reporting entities.	At least once a year; ongoing	Financial Information Unit in coordination with Regulatory Agencies, Nepal Rastra Bank	Nepal Rastra Bank, Ministry of Finance, Coordination Committee, Implementation Committee, Regulatory Agencies
4.3.3	Training for reporting entities and other agencies on preventive measures, detection of suspicious transactions, identification of risks, customer due diligence, and other issues pertaining to money laundering and terrorism financing.	At least once a year; ongoing	Financial Information Unit	Nepal Rastra Bank, Ministry of Finance, Coordination Committee, Implementation Committee, Regulatory Agencies

### 4.4. Make effective arrangements for undertaking responsibility as Secretariat of the Coordination Committee.

4.4.1	Prepare the necessary procedures for the Financial Information Unit's functions as the Secretariat of the Coordination Committee.	Mid-Nov.to mid- Dec. 2011	Financial Information Unit	Coordination Committee
4.4.2	Provide necessary resources for the Secretariat.	Mid-Nov.to mid-Dec. 2011	Financial Information Unit	Coordination Committee, Nepal Rastra Bank, Government of Nepal

### 4.5 Obtain membership of the Egmont Group of FIUs and establish relationships with other Financial Intelligence Units

4.5.1	Develop a plan for seeking membership of the Egmont Group of FIUs and prepare detailed procedures and application.	Mid-March to mid-April 2012	Financial Information Unit	Nepal Rastra Bank, Coordination Committee
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4.5.2	Prepare a standard template for memoranda of understanding on exchange of information between the Financial Information Unit and Financial Intelligence Units of different countries (in the event that such may be required) and identify the main potential counterparts.	Mid-Aug. to mid-Sept. 2012	Financial Information Unit	Nepal Rastra Bank, Coordination Committee
4.5.3	Negotiate, as needed, with Financial Intelligence Units of other countries for conclusion (if needed) of memoranda of understanding for the exchange of information.	Ongoing	Financial Information Unit	Nepal Rastra Bank, Coordination Committee
4.6	Make arrangements for necessary training to enhance the professional expertise and capacity of staff of the Financial Information Unit.	Ongoing	Nepal Rastra Bank	Government of Nepal and other related Institutions and Agencies

## Appendix D - Staff of FIU-Nepal

Designation	Approved No	No of officials currently working with FIU
Director	1	1
Deputy Director	3	3
Assistant Director	14	15
Others	2	3
Total	20	22

## Appendix E - Events for FIU-Nepal

- April 21, 2008–First Director of FIU appointed by the Governor of Nepal Rastra Bank.
- July 2008 – FIU officials participated in APG annual meeting in Bali, Indonesia.
- 21 October, 2008 – First Memorandum of understanding signed with Bangladesh.
- July 2009 – FIU officials participated in APG annual meeting in Brisbane, Australia
- 17 August, 2009 – FIU issued AML/CFT directives to bank and financial institution.
- July 2010 – FIU officials participated in APG annual meeting in Singapore.
- September 2010 – Second Mutual Evaluation of Nepal was conducted by APG.
- 24 Feb 2011– Ratification of UN Convention against Corruption, 2003
- 24 June 2011–Ratification of UN Convention against International Organized Crime, 2000
- 24 June 2011 – Ratification of UN Convention against Terrorist Financing, 1999
- July 2011 – Approval of Nepal’s Mutual Evaluation Report 2010 by APG Plenary in India
- July 2011 – FIU officials participated in APG annual meeting in Kochi, India.
- 27 September 2011- Five years National AML/ CFT Strategy came into force.
- October 2011 – FIU head attended FATF plenary at Paris, France.
- March 2012 – Bank and Financial Institutions Regulation Department of Nepal Rastra Bank issued Comprehensive AML/CFT Directives to Banks and Financial Institutions licensed by NRB.
- June 2012 - Nepal Rastra bank’s department of foreign exchange management issued new directives for money changer and money remitter .
- July 2012–FIU officials participated in APG Annual Meeting in Brisbane, Australia.



## Abbreviations

ALPA –Asset(Money) Laundering Prevention Act  
AML-Anti Money Laundering  
APG - Asia Pacific Group on Money Laundering  
AUSTRAC - Austrilian Transction Reports and Analysis Centre  
BFIRD -Banks And Financial Institutions Regulation Department  
BSD - Bank Supervision Department  
CFT- Combating Financing of Terrorism  
CIAA – Commission for the Investigation of Abuse of the Authority  
DBSD - Development Bank Supervision Department  
DMLI –Department of Money Laundering Investigation  
EGMONT – The Egmont Group of Financial Intelligent Units  
FATF - Financial Action Task Force  
FCSD - Finance Company Supervision Department  
FIU- Nepal -Financial Information Unit of Nepal  
GSD - General Service Department  
ICRG - International Cooperation Review Group of FATF  
IMF - International Monetary Fund  
IT - Information Technology  
LEAs - Law Enforcement Agencies  
MER - Mutual Evaluation Report  
MFPSD - Microfinance Promotion and Supervision Department  
ML – Money Laundering  
MOU - Memorandum of Understanding  
NRB - Nepal Rastra Bank  
RRG - Regional Review Group of FATF  
SIP - Strategic Implementation Planning  
STR - Suspicious Transaction Report  
TTF - Tropical Trust Fund  
TTRs - Threshold Transaction Reports  
UN – United Nations



**FINANCIAL INFORMATION UNIT (FIU) Nepal**

**Nepal Rastra Bank**